



ION

Securities and Exchange Commission  
Trading and Markets

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**RECEIVED**ANNUAL REPORT  
**FORM X-17A-5**  
**PART III**

SEC FILE NUMBER
8-52265

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**REPORT FOR THE PERIOD BEGINNING 11/01/17 AND ENDING 10/31/18  
MM/DD/YY MM/DD/YY**A. REGISTRANT IDENTIFICATION**NAME OF BROKER-DEALER: **CITY NATIONAL SECURITIES, INC.**

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

**400 N. ROXBURY DRIVE, SUITE 700**

(No. and Street)

**BEVERLY HILLS****CA****90210**

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

HUA SON, (310) 888-6368

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**MOSS-ADAMS, LLP**

(Name if individual, state last, first, middle name)

**8750 N. CENTRAL EXPRESS WAY, STE 300 DALLAS****TX****75231**

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

Certified Public Accountant



Public Accountant



Accountant not resident in United States or any of its possessions.

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (11-05)

Potential persons who are to respond to the collection of  
information contained in this form are not required to respond  
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## OATH OR AFFIRMATION

I, HUA SON, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CITY NATIONAL SECURITIES, INC., as of OCTOBER 31, 20 18, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

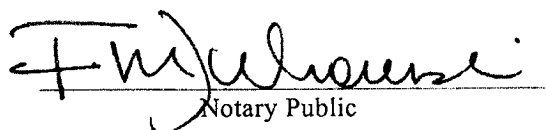
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Signature

VICE PRESIDENT / CHIEF FINANCIAL OFFICER & FINOP

Title

  
Notary Public



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**CITY NATIONAL SECURITIES, INC.**

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MOSSADAMS

## **Report of Independent Registered Public Accounting Firm**

To the Stockholder and the Board of Directors  
City National Securities, Inc.

### ***Opinion on the Financial Statement***

We have audited the accompanying statement of financial condition of City National Securities, Inc. (the Company) as of October 31, 2018 that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes (the *financial statement*). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of October 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

*Moss Adams LLP*

Dallas, Texas  
December 27, 2018

We have served as the Company's auditor since 2015.

**CITY NATIONAL SECURITIES, INC.**  
(A Wholly Owned Subsidiary of City National Bank)  
(SEC Identification Number 8-52265)

Statement of Financial Condition

October 31, 2018

**Assets**

Cash and cash equivalents	\$ 7,850,155
Marketable securities, at fair value	16,150,987
Receivables from clearing organization	22,329,045
Deferred tax asset, net	255,535
Premises and equipment, net	587,775
Other assets	<u>1,695,068</u>
Total assets	<u>\$ 48,868,565</u>

**Liabilities and Stockholder's Equity**

Liabilities:

Accrued expenses	\$ 2,807,745
Payable to clearing organization	9,596,720
Payable for securities purchased not yet settled	6,557,787
Payable to related party	<u>1,617,891</u>
Total liabilities	<u>20,580,143</u>

Commitments - Note 12

Stockholder's equity:

Common stock, \$1 par value. Authorized 10,000 shares; issued and outstanding 1,000 shares	1,000
Additional paid-in capital	2,999,000
Retained earnings	<u>25,288,422</u>
Total stockholder's equity	<u>28,288,422</u>
Total liabilities and stockholder's equity	<u>\$ 48,868,565</u>

See accompanying notes to statement of financial condition.

**CITY NATIONAL SECURITIES, INC.**  
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Notes to Statement of Financial Condition

October 31, 2018

**Organization and Nature of Business**

City National Securities, Inc. (the “Company” or “CNS”), a wholly owned subsidiary of City National Bank (the “Bank”), is a registered member of the Financial Industry Regulatory Authority (FINRA) and is engaged in the business of providing brokerage services to retail clients. The Company was formed on December 29, 1999, registered effective as a broker-dealer on March 15, 2000, and commenced operations on April 26, 2000.

On November 2, 2015, the Royal Bank of Canada (“RBC”) completed its acquisition of City National Corporation (“CNC”), the former holding company for the Bank. Effective at the acquisition date, CNC was merged with and into RBC USA Holdco Corporation (the “Corporation”), a Delaware corporation, with the Corporation surviving the merger as a wholly owned subsidiary of RBC. Accordingly, the Bank became a direct wholly owned subsidiary of the Corporation. To be comparable with RBC, starting January 2016, the Company changed the reporting period for its financial results of operations and condition from calendar year to fiscal year period ending in October.

The Company is exempt from Rule 15c3-3 under paragraph (k)(2)(ii) of the Securities Exchange Act of 1934, relating to the determination of reserve requirements, because it does not maintain customer accounts or take possession of customer securities. Transactions are cleared on a fully disclosed basis through National Financial Services LLC (NFS), a wholly owned subsidiary of Fidelity Global Brokerage Group, Inc.

The Company is registered as an investment advisor with the Securities and Exchange Commission (SEC). As a registered investment advisor, the Company is required to adhere to rules and regulations identified in the U.S. Investment Advisers Act of 1940.

**(1) Significant Accounting Policies**

***(a) Use of Estimates***

The preparation of the statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

***(b) Cash and Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Cash equivalents include \$7,850,155 held in money market funds. Cash held in banks periodically exceeds the Federal Deposit Insurance Corporation’s (FDIC) insurance coverage of \$250,000, and as a result there may be a concentration of credit risk related to the amount in excess of FDIC insurance coverage.

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October 31, 2018

**(c) Securities Transactions**

The Company records its securities transactions on a trade-date basis. Dividends are recorded on the ex-dividend date and interest is recorded on an accrual basis.

**(d) Fair Value Measurements**

Marketable securities are recorded at fair value based on publicly reported bid and ask quotations or broker quotations. Similarly, other assets and liabilities are recorded at their contracted amounts, which approximate fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

Each investment asset or liability is assigned a level at measurement date based on the significance and source of the inputs to its valuation. The three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The level hierarchy assigned to each security is based on the assessment of the transparency and reliability of the inputs used in the valuation of such security at the measurement date. The three hierarchy levels are defined as follows:

- Level 1 – Valuations based on unadjusted quoted market prices in active markets for identical securities.
- Level 2 – Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment and assumptions pertaining to the market participants.

The inputs used for valuing securities are not necessarily an indication of the risks associated with investing in those securities. The primary inputs for determining fair value are quotations for closing prices from national securities exchanges as well as reported bid and offer quotations from parties trading the security.

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October 31, 2018

**(e) *Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

The Company recognizes the benefits of tax return positions, which meet the threshold of “more-likely than-not” to be sustained upon challenge by the taxing authority. Measurement of a tax position meeting the more-likely than-not criterion is based on the largest benefit that is more than 50% likely to be realized.

The Company is a subsidiary of the Bank, which is a wholly owned subsidiary of the Corporation. Accordingly, the Company’s federal taxable income or loss is included in the federal income tax return filed by the Corporation. The Company may also be included in certain state and local tax returns of the Corporation or its subsidiaries. The Company’s tax-sharing agreement with the Bank provides that income taxes be based on the separate results of the Company. The agreement generally provides that the Company pay the Bank amounts equal to the taxes that the Company would be required to pay if it were to file a return separately from the affiliated group. The agreement also provides that the Bank will pay the Company amounts equal to tax refunds the Company would be entitled to if the Company had filed a separate company tax return as well as tax attributes that may be utilized by the Bank or others within the consolidated group. Any amounts payable or receivable for taxes are included within amounts due to or due from related parties.

**(f) *Receivables from Clearing Organization***

Receivables from clearing organization arise in the ordinary course of the Company’s operations and includes the clearing deposit, cash for inventory maintenance, receivable for revenue consisted of commissions, investment gains and losses and other investment income net of clearing costs, fees and other settlement charges.

**(g) *Premises and Equipment***

Premises and equipment are stated at cost less accumulated depreciation and amortization. Leasehold improvements are amortized over the terms of the respective leases. Depreciation is generally computed on a straight-line basis over the estimated useful life of each type of asset.



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October 31, 2018

**(h) Software**

Capitalized software is stated at cost, less accumulated amortization. Capitalized software includes purchased software and capitalizable application development costs associated with internally developed software. Amortization is computed on a straight-line basis and charged to expense over the estimated useful life of the software which is generally three to ten years. Capitalized software is included in Premises and equipment, net in the balance sheet.

**(2) Subdistribution and Shareholder Servicing Fees**

The Company provides certain services to the City National Rochdale Funds (the “Funds”), which are managed by City National Rochdale, LLC (“CNR”), a registered investment advisor (“RIA”) and wholly owned subsidiary of the Bank. Services are provided to the Servicing Class for CNS discretionary assets (see Note 10 Related Parties for additional information for the Company’s investment advisory program) and non-discretionary assets for relationships with over a hundred million in assets from November 2017 to February 2018 and non-discretionary assets for relationships with over \$50 million in assets starting March 2018, and to the Class N shares for all other assets.

The Company serves as subdistributor for the Class N shares of ten open-ended mutual funds and a money market fund of the Funds. SEI Investments Distribution Co. (SEI) serves as principal distributor for the Funds, and pursuant to the subdistribution agreement, the Company may receive sub distribution fees from SEI of 0.25% to 0.50% of the average annual Class N net assets of the Funds.

The Company also has in place a shareholder servicing agreement, whereby the Company is compensated by the Funds for providing certain shareholder support services to Class N and the Servicing Class share investors of the Funds. Under the terms of the shareholder servicing agreement, the Company receives shareholder servicing fees of 0.25% on an annual basis on the Funds’ Class N and the Servicing Class net assets. CNR and the Company elected to waive the majority of the shareholder servicing fees for the money market Funds, in order that the Funds maintain an effective yield floor.

**(3) Transactions with Affiliates**

Various expenses are paid by the Bank, such as rent and certain general and administrative expenses. These expenses are reimbursed by the Company pursuant to an agreement between the Company and the Bank.

The Company receives allocated compensation and benefit expense related to the employees of the Bank who provide services to the Company. The Bank employs a fair value methodology to determine the value of stock-based compensation granted to its employees, and such compensation is recorded over the vesting period of the related stock-based compensation.

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October 31, 2018

The Company has retained CNR, the Bank's RIA subsidiary, to provide investment advisory and portfolio management services for their investment advisory program. Under the program, the Company has established custodial accounts with the Bank on behalf of each of its clients. The Company compensates the Bank and CNR for these services.

**(4) Off-Balance-Sheet Risk**

In the normal course of business, the Company is involved in the execution of various securities transactions for its customer accounts. Securities transactions are subject to the risk of counterparty or customer nonperformance. However, transactions are settled on a delivery versus payment basis (DVP) and collateralized by the underlying security, thereby reducing the associated risk to changes in the fair value of the security through the settlement date or to the extent of margin balances. The settlement of these transactions is not expected to have a material effect on the Company's financial condition.

**(5) Regulatory Requirements**

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1) and is required to maintain minimum net capital, equivalent to \$250,000 or 2% of aggregate debit items, whichever is greater, as these terms are defined. As of October 31, 2018, the Company had regulatory net capital of \$24,206,318, which was \$23,956,318 in excess of the required minimum net capital of \$250,000.

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October 31, 2018

**(6) Income Taxes**

On December 22, 2017, the Tax Reform Act was enacted into law. Among other changes, the Tax Reform Act reduces the federal tax rate for corporations from 35% to 21%, effective January 1, 2018. The Company is a fiscal year taxpayer and is required to utilize a blended tax rate of 23.34% during the fiscal year ending October 31, 2018 and a tax rate of 21% for any fiscal year thereafter. As a result, the Company recorded a one-time revaluation adjustment to decrease its deferred tax assets in the amount of \$229,277 for the year ended October 31, 2018.

The tax effects of the temporary difference that gave rise to the deferred tax asset as of October 31, 2018 are presented below:

Deferred tax asset:	
State	\$ 308,853
Fixed Assets	(54,368)
Other	<u>1,050</u>
Net deferred tax asset	<u>\$ 255,535</u>

Management has analyzed the Company's recorded tax benefits and concluded that each material position satisfied the required recognition and measurement threshold for inclusion within the statement of financial condition. Consequently, the Company has not recorded any reserve for any uncertain tax positions and does not believe that a significant change will occur within the coming year as to any uncertain tax positions.

To the extent that a deferred tax asset is determined to be less than more likely than not to be realized, a valuation allowance is recorded. Management has determined that a valuation allowance is not required for any of its deferred tax assets.

The Bank may from time to time be assessed interest or penalties by taxing authorities, although any such assessments historically have been minimal and immaterial to the financial results. Years subsequent to 2010 are still subject to adjustment upon audits by taxing authorities.

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Notes to Statement of Financial Condition

October 31, 2018

**(7) Fair Value Measurements**

The following table summarizes the Company's assets and liabilities measured at fair value as of October 31, 2018 by level in the fair value hierarchy:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of October 31, 2018
<b>Assets:</b>				
Money market funds	\$ 7,850,155	\$ —	\$ —	\$ 7,850,155
U.S. Govt and Agency bonds	672,624	2,924,414	—	3,597,038
Municipal bonds	4,361,581	5,280,074	—	9,641,655
Corporate bonds	1,913,984	998,310	—	2,912,294
Total assets	<u>\$ 14,798,344</u>	<u>\$ 9,202,798</u>	<u>\$ —</u>	<u>\$ 24,001,142</u>

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 during the period for the year ended, October 31, 2018. There were no acquisitions of Level 3 securities during 2018.

**(8) Receivable From and Payable to Clearing Organization**

The following table summarizes the Company's transactions arising from amounts receivable from and payable to clearing organization as of October 31, 2018:

	Receivable	Payable
Deposit	\$ 1,000,000	\$
Cash held for inventory	19,148,595	
Payable to clearing broker		9,596,720
Fees and commission receivable	2,180,450	
Payable for securities purchased		6,557,787
	<u>\$ 22,329,045</u>	<u>\$ 16,154,507</u>

**CITY NATIONAL SECURITIES, INC.**  
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Notes to Statement of Financial Condition

October 31, 2018

**(9) Premises and Equipment**

The following is a summary of the major categories of premises and equipment:

	Cost	Accumulated Depreciation And Amorization	Carrying Value	Range of Lives
<b>October 31, 2018</b>				
Premises	\$ 1,705,983	\$ 1,694,527	\$ 11,456	Up to 39 years
Furniture, fixtures and equipment	1,343,894	1,293,899	49,995	3 to 10 years
Software	1,332,258	818,803	513,455	3 to 10 years
Total	<u>\$ 4,382,135</u>	<u>\$ 3,807,229</u>	<u>\$ 574,906</u>	

**(10) Related Parties**

The Company started the City National Securities Investment Advisory Program and registered with the SEC as a registered investment advisor effective March 22, 2010. CNS hired the Bank's RIA subsidiary, CNR to manage the assets of the RIA clients. SEI tracks and calculates the amount of income earned based on the average daily balance of assets under management at the end of each period. For the year ended October 31, 2018, the Company compensated CNR for its services provided to the investment advisory program customers.

The Company has an unsecured revolving credit with the Corporation. Refer to Note 11, *Subordinated Borrowing*, for further discussion of the line of credit.

**(11) Subordinated Borrowing**

The Company has a \$20,000,000 unsecured revolving credit agreement that bears interest at LIBOR plus 1.5% per annum and may repay the outstanding amount at any time prior to the maturity date of March 31, 2020. The proceeds are used to manage inventory levels to meet client demands and general corporate purposes. During 2018, the Company paid the outstanding balance of \$5,000,000.

The credit agreement was approved by FINRA as a subordinated borrowing and is available in computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

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Notes to Statement of Financial Condition

October 31, 2018

**(12) Commitments and Contingencies**

In August 2018, the Company has amended its clearing agreement with NFS for the rates at which the Company reimburses NFS for clearing and execution costs and the provision of the contingent termination clause (the Clause). The rates are subjected to change if the Company's business metrics decrease more than 35% over target levels for the number of accounts, asset balances or volume activity during any 12 month period. Additionally, the Clause stipulates in the event the Company terminates its agreement with NFS prior to the agreement's expiration date, the Company would have to pay a termination fee equating to the monthly clearing and execution costs due for the remaining length of the agreement. The agreement is in effect for three years. After such period either party may terminate the agreement providing ninety days prior written notification.

The Company terminated its parental guarantee from CNC with the acquisition of the Bank by RBC. In lieu of a corporate guarantee, the Company agreed to maintain minimum net capital of \$5,000,000 and a clearing deposit of \$1,000,000 which is included as Receivable for clearing organization on the statement of financial condition.

During the normal course of its operations, the Company may incur additional liabilities due to existing conditions, situations, legal claims, regulatory matters, or circumstances involving uncertainty as to possible loss to the Company that will ultimately be resolved when one or more future events occur or fail to occur.

Management accrues for such liabilities to the extent that they are deemed probable and estimable. As of October 31, 2018, management believes that any such items would not have a material or adverse effect on its continuing operations.